



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D.C. 20410-9000

THE GOVERNMENT NATIONAL  
MORTGAGE ASSOCIATION

March 15, 2001

01-07

MEMORANDUM FOR: All Participants in Ginnie Mae Programs

FROM: George S. Anderson, Executive Vice President

SUBJECT: Settlement of Ginnie Mae Securities Through  
the Federal Reserve

**PURPOSE:**

The purpose of this release is to share with our issuer community information on the recent joint announcement by The Bond Market Association ("Bond Market"), Ginnie Mae, Federal Reserve Banks ("FRBs"), and The Depository Trust & Clearing Corporation ("DTCC") communicating the Ginnie Mae Conversion Subcommittee's ("Subcommittee") plan to migrate the settlement of Ginnie Mae securities to the FRBs. Included in the implementation plan is the rollout of new functionalities (fail tracking, interim accounting and repo tracking) that will be implemented on FRBs' Fedwire system. From a Ginnie Mae issuer standpoint, this effort should have minimal impact on the operations aspect of your organization. There may be some changes that your company will need to make in order to continue issuing Ginnie Mae securities, as well as to continue meeting its issuer responsibilities as elaborated below under the heading "Impact on Ginnie Mae Issuers".

**BACKGROUND:**

Early last year, the Bond Market formed a Ginnie Mae Settlement Task Force (the "Task Force") to discuss the feasibility of transferring the settlement of Ginnie Mae mortgage-backed securities ("MBS") from DTCC to the FRBs, where both Fannie Mae and Freddie Mac securities are settled and cleared. The Task Force is comprised of relevant market participants which include broker-dealers, Bond Market staff, The

Mortgage Bankers Association of America ("MBA"), Ginnie Mae, FRBs, DTCC, clearing banks, and custodial banks.

Concurrent with the Task Force study, Ginnie Mae approached several of its industry partners in the capital markets area (Wall Street) regarding moving the settlement and clearing of Ginnie Mae securities to the FRBs. The feedback Ginnie Mae received was very positive. Through these efforts, it became apparent to Ginnie Mae that settling Ginnie Mae securities through the FRBs could accomplish the following: shorten the securities settlement processing time and the time it takes for beneficial holders of Ginnie Mae I securities held in depository form to be paid their monthly principal and interest payments; increase the attractiveness of Ginnie Mae securities to foreign investors; and bring economies of scale by having all MBS settled and cleared through one entity.

In May of last year, Ginnie Mae announced to the financial industry its decision to move the settlement of Ginnie Mae securities to the FRBs. The Bond Market supported Ginnie Mae's decision, provided that fail tracking, interim accounting and repo tracking functionalities were implemented on FRBs' Fedwire system as part of this effort.

#### **Ginnie Mae Conversion Plan:**

Subsequent to Ginnie Mae's announcement, the Task Force formed the Ginnie Mae Conversion Subcommittee to develop a conversion plan setting forth conversion details and an implementation schedule. Attached for your information is the Ginnie Mae Conversion Plan ("Conversion Plan") developed by the Subcommittee that provides details on the new functionality that will be made available on FRBs' Fedwire system. The Conversion Plan also reflects the timetable for converting Ginnie Mae securities from DTCC to the FRBs. As reflected in the Conversion Plan, Ginnie Mae securities will be migrated to the FRBs over several months starting in October 2001, with all securities being converted by December 2001. The Conversion Plan includes alternative conversion dates in the event they are needed. The Subcommittee will periodically update the financial industry on the Conversion Plan, as appropriate.

#### **Impact on Ginnie Mae Issuers:**

Ginnie Mae will be making changes to its processes and systems in order to facilitate the conversion of existing Ginnie Mae securities to the FRBs and to accommodate the settlement of new securities through the FRBs. These changes may have an impact on your organization. Therefore, we strongly recommend that the appropriate staff in your organization fully assess the

information being provided in this announcement to determine the impact on your organization.

### **Pool Processing**

Ginnie Mae will be modifying its GinnieNET pool delivery and reporting system to enable issuers to identify the clearing bank for settling Ginnie Mae securities with the FRBs. Due to the volume of pools and related holdings that will be required to be converted from DTCC to FRBs, existing securities will be converted by product type/coupon rate as laid out in the Conversion Plan. Once a security product type/coupon rate has been converted to the FRBs, all new securities issued for that security product type/coupon rate will be settled through the FRBs. Because the conversion will take several months to complete, during the conversion period, it is possible that issuers will be settling certain securities through DTCC while other securities will be settled through the FRBs, depending on the product type/coupon rate being issued. **During the conversion period, issuers will be required to input both the contra account (settlements at DTCC) and clearing bank information (settlements at FRBs) into GinnieNET. Ginnie Mae's Pool Processing Agent will direct the delivery of MBS pools to the appropriate depository based on the conversion timetable.**

### **Monthly Principal and Interest Payments**

The FRBs require that all security holder payments be made electronically. During the conversion period, two ACH Debit payments will be processed each month, one for securities held at DTCC and another for securities held at FRBs. **To assure that both DTCC and the FRBs receive their payments timely during and after the transition period, all issuers will be required to make their Ginnie Mae I payment by ACH Debit starting with the October 15, 2001 payment.** Similar to the Ginnie Mae II Program, Ginnie Mae's agent, Chase Manhattan Bank, will notify issuers of the amount of principal and interest to be paid by ACH Debit to both DTCC and FRBs for Ginnie Mae I securities. Principal and interest payments will be calculated based on the reported outstanding principal balance reported on the pools serviced by each issuer. As securities are converted to the FRBs, their related principal and interest payments will be paid to the FRBs. Please note that on Monday, February 26, 2001, Ginnie Mae published a proposed rule in the Federal Register for comment to require all Ginnie Mae I security holder

payments for securities held in depository form be made in immediately available funds, as directed by Ginnie Mae.

### **Remittance Advice Reporting**

For securities held by DTCC, you will be advised by Ginnie Mae's Central Registry and Transfer Agent when the security has been converted from DTCC to the FRBs. The security holder's name on forms HUD 11714, Issuer's Monthly Remittance Advice and HUD 11714-SN, Issuer's Monthly Serial Note Remittance Advice, must reflect the Federal Reserve Bank of New York ("FRBNY") when advised of the conversion.

### **Serial Note Pools**

To give holders of Ginnie Mae serial note pools the flexibility to finance their portfolios more efficiently, Ginnie Mae will be making changes to the issuance process. Details on this part of the Conversion Plan will be forthcoming.

### **Benefits To Be Derived From This Change:**

We believe that the following improvements will be realized as a result of this change:

1. The settlement of Ginnie Mae securities should take place no later than the end of day two compared to the morning of day three. This assumes that the issuer is in good standing, has adequate Ginnie Mae commitment authority to issue the security, and the loans are eligible to be pooled. This should result in lower financing costs for issuers;
2. Payments to beneficial holders of Ginnie Mae I securities held in depository form, will be made on the 15<sup>th</sup> day of the month instead of the 16th day of the month (assumes the 15<sup>th</sup> day of the month is a business day). This should favorably affect the pricing of Ginnie Mae securities;
3. Ginnie Mae I ACH Debit will eliminate any differences between what issuers report to be paid to security holders versus the payment to the Depository. This improvement will provide more certainty to the mortgage-backed securities market, which should favor the pricing of Ginnie Mae securities;
4. Ginnie Mae securities will be more attractive to foreign investors. This should create a higher demand for Ginnie

Mae securities, increasing the likelihood of better pricing;  
and

5. All mortgage-backed securities will be settled on the same Depository allowing for economies of scale with respect to depository fees.

**Summary:**

We appreciate your support and cooperation in this very important effort. We want to work with you to make this change as smooth as possible. If you have any questions concerning the Conversion Plan, please direct them to either Rob Fry at (202) 401-8970 or Tom Weakland at (202) 708-2884, Ginnie Mae's representatives to both the Task Force and Subcommittee. Also, please feel free to contact your Account Executive in the Office of Customer Service at (202) 708-1535 or the Office of Multifamily Programs at (202) 708-2043 with any concerns or issues you may have regarding this initiative.

Attachment